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EFFECTS OF THE CLOSING OF THE SUEZ CANAL  
ON SINO-SOVIET BLOC TRADE AND TRANSPORTATION

Office of Research and Reports

CENTRAL INTELLIGENCE AGENCY

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EFFECTS OF THE CLOSING OF THE SUEZ CANAL  
ON SINO-SOVIET BLOC TRADE AND TRANSPORTATION\*

Summary

The most important economic factor in the present crisis in the Near East is the closing of the Suez Canal, which is the gateway to Asia and the vital channel through which a substantial part of the petroleum supply of Western Europe normally flows. Free World and Sino-Soviet Bloc shipping services engaged in fulfilling trade commitments and in meeting internal requirements were immediately affected. Sailing schedules were disrupted. Vessels caught south of the Canal were compelled to return to European ports by the much longer route around Africa.\*\* The maintenance of the normal flow of commodities with extended sailing distances greatly increased shipping requirements for many nations. As a result, the tight ship charter market created when Egypt nationalized the Canal in mid-1956 became increasingly restrictive.

The result of the Canal stoppage thus far has been a serious dislocation of normal commodity movements -- a dislocation which is likely to continue until the Canal is reopened about mid-1957. In the West the situation is best illustrated by the reduction in petroleum shipments from the Middle East to Western Europe. The petroleum deficit of Western Europe must be overcome, in part at least, by shipments from the Western Hemisphere, but only after production and shipping adjustments of staggering proportions. Although the period of disorganization of normal economic intercourse probably will be brief, it will nevertheless increase the prices of many basic commodities in world commerce and will tend to extend the time required to meet delicately balanced economic plans in South and Southeast Asia. It will also probably cause considerable unemployment in the countries of the Free World which are dependent on bulk traffic movement through the Canal.

The Sino-Soviet Bloc is more fortunate. None of its members is so dependent on the Suez Canal that the closing creates a crisis. About 5 million metric tons\*\*\* of Bloc trade moved through the Canal in 1955 compared with the total Canal traffic\*\*\*\* of 107 million tons. Vessels carrying Bloc trade through the Canal were about evenly divided between Bloc and Free World registry. The adjustments

\* The estimates and conclusions contained in this report represent the best judgment of ORR as of 1 January 1957.

\*\* See the map, Figure 1, inside back cover.

\*\*\* Tonnages are given in metric tons throughout this report, except where otherwise indicated.

\*\*\*\* Including both directions.

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required of the Bloc, therefore, although serious, can be carried out with relatively less economic disorganization.

The Sino-Soviet Bloc will, however, incur substantial additional transportation costs as a result of the long, expensive water haul now required between Europe and the Communist Far East. The world-wide scarcity of merchant vessels as shown by the tightening charter market on which the Bloc is much dependent has already interrupted scheduled seaborne deliveries to Communist China. Petroleum shipments by sea from the Black Sea to the Soviet Far East, which have increased significantly in recent years, have been stopped since the closing of the Canal, with no indication of their resumption in the near future.

A reduction in seaborne trade with the Communist Far East will make it necessary for the Sino-Soviet Bloc to increase the use of the Trans-Siberian Railroad and to absorb significantly higher transportation costs over the short run, especially for the China trade. It is unlikely that the petroleum requirements of the Communist Far East which normally move by sea will be met from reserves bases in the area. Communist China also depends on substantial seaborne deliveries of such critical commodities as metals, machinery, transport equipment, and chemical fertilizers for its industrial and military development. An appreciable reduction in the receipt of fertilizers required for spring planting may adversely affect agricultural production, and the inability to phase properly the delivery of essential industrial equipment would threaten economic expansion.

To compensate for the disruption of its shipping and its inability to charter foreign tonnage, the Sino-Soviet Bloc began as early as 3 November 1956 to divert essential cargoes from seaborne movement to trans-Soviet Bloc rail lines, while at the same time continuing to meet less urgent deliveries by using the route around Africa. Chinese Communist overland imports and exports already put a substantial burden on the Trans-Siberian Railroad. Although rail facilities can carry the added volume of dry cargo which is being diverted, there probably will be a strain on the Soviet tank-car park of sufficient magnitude to prevent some deliveries. Moreover, substantially increased diversion, continued over an extended period, conceivably could retard delivery of commodities required elsewhere in the USSR and thereby adversely affect Soviet economic plans. Such diversion would also aggravate the sporadic transport congestion which has become increasingly prevalent in China.

One effect of the closing of the Suez Canal on Sino-Soviet Bloc - Free World trade was the interruption of the normal flow of refined and crude petroleum from the Black Sea to the Egyptian port of Suez, at the southern end of the Canal. The lack of crude oil has been most difficult to overcome. The stoppage of Soviet deliveries and the inaccessibility of other former sources have kept the two Egyptian refineries at the port of Suez closed since the initiation of hostilities. Thus petroleum, on which Egyptian industry is completely dependent for fuel, is in critically short supply in spite of increased shipments of refined products from the Black Sea to Alexandria.

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The closing of the Suez Canal may also retard the Soviet Bloc trade offensive among the underdeveloped countries of South and Southeast Asia. Since the Canal closed, few Bloc-flag vessels have departed for these areas except for India, where shortages are already appearing because of the disorganization of world shipping. The Bloc may be inclined to fulfill its trade commitments to India to demonstrate its adherence to agreements in spite of extenuating circumstances. Elsewhere in Asia the Bloc can place responsibility for any failure to meet trade commitments on Western intervention in Egypt.

#### I. Closing of the Suez Canal.

Immediately after the Israeli - Anglo-French attack on Egypt at the end of October 1956 a carefully prepared plan to block the Suez Canal was put into operation. 1/\* Egyptians began large-scale scuttling of ships, barges, and maintenance vessels in and near navigation channels. Subsequently the movable rail bridge at El Fridan north of Ismailia was dropped into the channel, and several buildings of the canal company were destroyed. In all, at the end of hostilities, there were an estimated 49 obstructions in the Canal, including 20 vessels of one type or another in the northern entrance and a cement-laden LST in the channel at the south end of Lake Timsah. 2/

Estimates of the cost of clearing the wreckage range as high as US \$40 million. Estimates of the time required to restore the Canal to operating condition vary widely. It has been stated that, depending on the size of the salvage force assembled, the amount and kind of equipment at its disposal, and the extent of cooperation by the Egyptian government, the Canal can be cleared in from 2 to 9 months, with 5 months the most frequently quoted estimate. Presumably these estimates refer to complete clearance and not merely to opening usable ship lanes through the debris, which could be done in less time. 3/ Partial restoration of navigation has already been accomplished by Anglo-French salvage crews in Port Said, which now can be used by vessels drawing up to 25 feet. 4/

For the purpose of this report, an estimate of mid-1957 for complete restoration of the Canal to former traffic levels is accepted as a basis for determining the effect on the trade and transportation previously carried.

#### II. Status of Trade and Transportation Before Initiation of Hostilities.

The estimated volume of the commodity trade of the Sino-Soviet Bloc, both with the Free World and intra-Bloc, moving through the Suez Canal during the periods January through June 1956 and January through June 1957 is shown in Table 1.\*\* More than 1,460,000 tons

\* For serially numbered source references, see Appendix C.

\*\* Table 1 follows on p. 4.

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Table 1

Estimated Volume of the Seaborne Foreign Trade of the Sino-Soviet Bloc Moving Through the Suez Canal a/\*  
January-June 1956 and January-June 1957

Thousand Metric Tons										
Cargo	Bloc - Free World				Intra-Bloc				Total	Grand Total
	USSR - Egypt and Asia b/	European Satel- lites - Egypt and Asia c/	Communist China - Near East d/	Communist China - Western Europe	Communist China - European USSR	Communist China - European Satellites				
							Total			
Dry										
Southbound										
January-June 1956	63	265	6	400	734	5	176	181	915	
January-June 1957 e/	145	435	6	419	1,005	0	185	185	1,190	
Northbound										
January-June 1956	22	220	13	151	406	85	657	742	1,148	
January-June 1957 e/	27	460	25	185	697	90	696	786	1,483	
Liquid										
Southbound										
January-June 1956	297	215	0	1	513	0	38	38	551	
January-June 1957 e/	310	200	0	1	511	5	40	45	556	
Northbound										
January-June 1956	0	0	0	14	14	0	3	3	17	
January-June 1957 e/	0	15	0	15	30	0	4	4	34	

\* Footnotes for Table 1 follow on p. 5.

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Table 1

Estimated Volume of the Seaborne Foreign Trade of the Sino-Soviet Bloc Moving Through the Suez Canal a/  
January-June 1956 and January-June 1957  
(Continued)

Cargo	Bloc - Free World				Intra-Bloc				Total	Grand Total
	USSR - Egypt and Asia b/	European Satel- lites - Egypt and Asia c/	Communist		Communist USSR	Communist China - European Satellites				
			China - Near East d/	China - Western Europe						
Total										
Southbound										
January-June 1956	360	480	6	401	1,247	5	214	219	1,466	
January-June 1957 e/	455	635	6	420	1,516	5	225	230	1,746	
Northbound										
January-June 1956	22	220	13	165	420	85	660	745	1,165	
January-June 1957 e/	27	475	25	200	727	90	700	790	1,517	
a. 5/										

a. 5/  
and Thailand.

b. Including trade with Australia, Burma, Cambodia, Ceylon, India, Indonesia, Iraq, Japan, New Zealand, Pakistan, the Philippines,

c. Including trade with the countries specified in footnote b plus Iran.

d. Including trade with Egypt, Lebanon, and Syria.

e. Estimates for the first half of 1957 indicate that volume of trade which would have moved through the Suez Canal if the Canal had been open.

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of Bloc trade are estimated to have moved southbound through the Canal during the period January through June 1956, and more than 1,160,000 tons moved northbound. These totals include 1,247,000 tons of Bloc trade with Free World countries moving through the Canal southbound and 420,000 tons moving northbound. The remainders represent intra-Bloc trade (Communist China to and from the USSR and the European Satellites) moving through the Canal.

Similar estimates are shown in the same table for the first 6 months of 1957 to indicate the magnitude of Sino-Soviet Bloc trade commitments existing at the time the Suez Canal was blocked. It is apparent that, in terms of volume at least, most of the Sino-Soviet Bloc trade which would normally have used the Canal during the first half of 1957 is with Free World countries. It is estimated that during this period a total of about 2.2 million tons of cargo would have moved between the Sino-Soviet Bloc and Western Europe, Egypt and Asia, and the Near East through the Canal, principally southbound. By comparison, the volume of intra-Bloc trade which would have used the Canal in the first half of 1957 is estimated to be about 1 million tons, principally northbound.

A. Sino-Soviet Bloc Supply of the Soviet Far East  
and Communist China.

Economic activity and development in the Soviet Far East and Communist China are normally dependent on supplies from the Soviet Bloc in Europe. China, in addition, maintains a comparatively large volume of trade (in terms of total Chinese foreign trade) with countries of Western Europe. One of the most important commodities moving by sea to the Soviet Far East is refined petroleum, most of which is off-loaded at Vladivostok for distribution by sea to other Soviet Far East ports and by rail to China. In 1955 a total of 428,000 tons of petroleum products was delivered to the Soviet Far East from the Black Sea, more than a 500-percent increase above the level of 1954. <sup>6/</sup> The dependence of the area on seaborne petroleum deliveries continued to increase in 1956. During the first 9 months of the year, slightly more refined petroleum was shipped to the Far East than arrived during the entire previous year. <sup>7/</sup>

Communist China depends on ocean transport for a substantial part of its foreign trade. During 1955, about 6.5 million tons, or more than 45 percent of the volume of Chinese imports and exports, moved by sea. Although not all of the seaborne foreign commerce of China moves through the Suez Canal, that segment which does is quite significant. The volume of Chinese Communist trade which normally would have moved through the Suez Canal during the period January through June 1957 is estimated to total about 1.6 million tons in both directions. The estimated volume and value of the seaborne foreign trade of Communist China with the European Satellites, Western Europe, and the European USSR moving through the Suez Canal during the periods January through June 1956 and January through June 1957 are shown in Table 2.\*

\* Table 2 follows on p. 7.

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Table 2

Estimated Volume and Value of the Seaborne Foreign Trade of Communist China  
Moving Through the Suez Canal a/  
January-June 1956 and January-June 1957

Trade	January-June 1956				January-June 1957			
	Volume (Thousand Metric Tons)		Value (Million US \$)		Volume (Thousand Metric Tons)		Value (Million US \$)	
	Liquid Cargo	Dry Cargo	Total		Liquid Cargo	Dry Cargo	Total	
<b>Exports to</b>								
European Satellites	3	657	660	86	4	696	700	90
Western Europe	14	151	165	57	15	185	200	70
European USSR	0	85	85	14	0	90	90	15
Total	17	893	910	157	19	971	990	175
<b>Imports from</b>								
European Satellites	38	176	214	90	40	185	225	95
Western Europe	1	400	401	85	1	419	420	90
European USSR	0	5	5	0.3	5	0	5	0.3
Total	39	581	620	175.3	46	604	650	185.3

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B. Sino-Soviet Bloc Trade Offensive in the Near East and in South and Southeast Asia.

Recent Sino-Soviet Bloc efforts toward the economic penetration of countries of South and Southeast Asia have been accompanied by a consistent expansion of credit, an extension of trading relationships, and a cultivation of developing markets through the export of technical services to the so-called underdeveloped areas. As a result, a significant and increasing amount of Bloc trade with many of the free Asian countries, as well as with Egypt, Australia, Japan, and New Zealand, normally passes through the Suez Canal. It is estimated that during the first half of 1957 trade between the European Bloc and Egypt and Asia\* would total about 1.6 million tons, or an increase of about 50 percent in volume for a like period in 1956. An important segment of this trade consists of refined and crude petroleum that is usually carried from Rumanian and Soviet Black Sea ports to the port of Suez. The bulk of Bloc trade with Egypt and Asia\* is with the European Satellites and would account for an estimated 70 percent of the total during the period from January through June 1957. The amount of trade between Communist China and the Near East which would normally move through the Suez Canal is small but increasing. It is estimated that during the first half of 1957 such trade would amount to 31,000 tons, an increase of more than 60 percent above the level of a similar period in 1956 (see Table 1.\*\*).

C. Sino-Soviet Bloc Merchant Marine as an Instrument of Foreign Trade.

1. Disposition of Soviet Bloc Merchant Fleets.

The Soviet Bloc, excluding Communist China, has active at any given time about 893 vessels, of which 739 are of Soviet registry and the remainder of European Satellite registry. Excluding the Caspian Sea fleet, there are 83 Soviet tankers, of which 38 are normally used in overseas petroleum trade with 20 to 24 of these usually used outside of Communist waters. Soviet tankers remaining permanently in Bloc waters are old or small and are therefore used on shuttle services, largely in the Black Sea and the Soviet Far East. At the moment the European Satellites have only one oceangoing tanker, the Polish-flag Karpaty. The other Polish-flag tanker, the Wspolpraca, is out of commission and was sold for scrap. 9/ The disposition of Soviet and European Satellite merchant fleets as of 3 November 1956 is shown in Table 3.\*\*\*

The proportion of Soviet Bloc freighters outside of Communist waters at any one time is about the same as that of the tankers. Of the total 810 active cargo ships, generally only 110 to 120 are outside Bloc waters at any given time, divided fairly evenly between Soviet and European Satellite flags. The merchant marine of Communist China plays a negligible role in foreign trade activity. Its merchant fleet of

\* See Table 1, footnotes c and d, p. 5, above.

\*\* P. 4, above.

\*\*\* Table 3 follows on p. 9.

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Table 3

Disposition of Soviet and European Satellite Merchant Fleets a/  
as of 3 November 1956

Area	Soviet		European Satellite <u>b/</u>	
	Tankers <u>c/</u>	Cargo Vessels	Cargo Vessels	Total
Outside Communist waters				
Norwegian Sea	1	21	0	22
North Sea	1	12	0	13
Atlantic Ocean	2	1	25	28
Mediterranean Sea	10	11	21	42
Red Sea	5	2	1	8
Indian Ocean	3	5	10	18
South China Sea	0	6	0	6
Pacific Ocean	2	3	0	5
Total	<u>24</u>	<u>61</u>	<u>57</u>	<u>142</u>
In Communist waters:				
Black Sea	26	109	19	154
Baltic Sea	9	70	78	157
Barents/White Sea	3	113	0	116
Soviet Far Eastern waters	20	272	0	292
Chinese Communist waters	1	31	0	32
Total	<u>59</u>	<u>595</u>	<u>97</u>	<u>751</u>
Grand total	<u>83</u>	<u>656</u>	<u>154</u>	<u>893</u>

a. 10/

b. This figure does not include the two Satellite tankers, the Polish-flag Karpaty, which was recently reported out of repair in Hong Kong, and the Wspolpraca, which was recently sold for scrap.

c. Excluding the Caspian Sea fleet.

120 vessels is for the most part confined to plying between Chinese coastal ports, with the exception of intermittent trips to North Vietnam. 11/

## 2. Sino-Soviet Bloc Dependence on Non-Bloc Shipping Services.

The Sino-Soviet Bloc utilizes only a small part of its relatively small total merchant fleet capability to carry its foreign trade. As a result, it must charter a large amount of non-Bloc tonnage each year. In 1955, about 1,100 Free World vessels, aggregating 5 million gross register tons (GRT), were chartered for varying durations by the Bloc, an increase of more than 30 percent over the previous year. 12/

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Perhaps the most striking example of Bloc dependence on Free World maritime services is found in the conveyance of the foreign trade of Communist China. Consistently since 1951, more than 80 percent of the number of vessels carrying commodities to and from China have been of non-Bloc registry. For the most part, these ships carry only nonstrategic items, but their extensive participation permits the use of Bloc vessels to transport embargoed commodities to China. 13/

Petroleum movements from the Black Sea also illustrate the dependence of the Sino-Soviet Bloc on Free World shipping. In 1955, of about 1 million tons of crude oil and 5 million tons of refined products carried from the Black Sea, only 650,000 tons were transported in Bloc tankers, mainly to the Communist Far East. The remainder, which accounted for 90 percent of the total, was carried in non-Bloc tankers, about half of which were chartered to the Bloc. 14/ Finally, the dependence of Poland on foreign vessels to carry over 85 percent of its seaborne foreign trade in 1955 indicates the scarcity of domestic shipping. 15/ Other European Satellites, none of which possesses more than 4 or 5 seagoing vessels, must also rely on foreign shipping to carry a large part of their seaborne foreign trade.

### III. Effects of the Closing of the Suez Canal on the Sino-Soviet Bloc.

Specific information on current Sino-Soviet Bloc trade negotiations, particularly as to delivery schedules, is not available in sufficient detail to determine precisely the impact of the closing of the Suez Canal on Bloc trade commitments. Isolated reports indicate that the Bloc is having difficulty in obtaining materials, but these are too few to establish a pattern. On the other hand, the effect of recent events in Egypt on world shipping in general and on Bloc maritime services in particular can be measured with a fair degree of reliability. Deviations from the expected pattern of employment of Bloc merchant shipping, as an instrument of foreign trade, should indicate any disorganization of its international commerce. The impact of difficulties in the Suez Canal area during November 1956, moreover, probably offers a valid basis for ascertaining the prospects during the period the Canal remains closed.

It appears that the seaborne trade of the Sino-Soviet Bloc with the Communist Far East will be definitely reduced because of the disruption of Bloc shipping and the sudden scarcity of Free World maritime services. The Soviet Bloc trade offensive in South and Southeast Asia may also be retarded. The impact on the economies of the Soviet Far East and Communist China will depend mainly on the extent to which overland transport can compensate for the reduction in shipping, as well as the availability and inclination to draw upon reserves of commodities normally moved by sea.

#### A. Merchant Shipping Services.

##### 1. Disruption of Sailing Schedules.

At the outbreak of hostilities on 29 October 1956, Soviet and European Satellite merchant vessels were deployed for the most part in a normal pattern. There were 7 Soviet vessels in the Suez Canal

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area -- 5 freighters in North Egyptian ports, 1 tanker in the port of Suez, and another tanker moving through the Canal. Vessels under way which were bound for passage through the Canal consisted of 1 tanker in the Eastern Mediterranean, 1 freighter and 1 tanker in the Red Sea, and 3 tankers in the Gulf of Aden. There were 6 European Satellite vessels in the area -- 5 freighters in North Egyptian ports and 1 freighter north-bound in the Canal. There were also two vessels in the Red Sea returning to Europe from the Far East. The Polish dredge Zeran, on loan or sold to Egypt, was in the Canal awaiting spare parts before beginning operations. 16/

Some of the Sino-Soviet Bloc vessels in Egyptian ports when hostilities began were forced to leave before completing cargo operations. Others approaching the Canal from the south and those farther east planning to return to home ports from Asia were confronted with a long voyage around Africa or through the Panama Canal. In either case, sailing time would increase significantly. Ships returning to the Black Sea from the Far East must sail 7,000 nautical miles farther, an increase of about 75 percent above the conventional voyage. Round trips between these areas, therefore, probably now require 60 to 70 days in addition -- almost double the previous voyage time -- depending on the speed of the vessel. An increase of similar magnitude is required for round trips between the Baltic Sea and the Far East. The significant increases in voyage time for Bloc vessels normally plying between European ports and the Far East will have a commensurate effect on operating costs. The total impact cannot be determined, but, based on US T-2 tanker operations, a petroleum shipment of 10,000 tons from the Black Sea to Vladivostok will now cost an additional US \$150,000. 17/ At this rate, to maintain through June of 1957 the expected level of petroleum shipments to the Far East would cost the Bloc about US \$6 million to \$7 million more than a movement of similar magnitude through the Suez Canal. Although this is not completely representative of Bloc cargo movements affected by the closing of the Canal, it does suggest that considerable additional expense will be incurred in maintaining trade normally carried in Bloc vessels between Europe and Asia.

Apparently the USSR was not prepared to meet the problems caused by closing the Canal. For some time after navigation in the Canal became impossible, considerable indecision was shown in authorizing the rerouting of Soviet vessels. Even as late as 28 November it was evident that the problem of rerouting had not been fully solved. 18/ Many of the ships which normally would have left Bloc ports for a Suez transit evidently had been placed on other assignments. As of 5 December, for example, no Soviet tankers had left the Black Sea for the Far East, and only 7 freighters had been rerouted from Europe by way of the Cape of Good Hope for Asia -- 4 scheduled for North China ports and 3 for India. 19/

Many of the Sino-Soviet Bloc vessels caught south of the Suez Canal began the voyage back to Europe by way of the Cape. By 5 December there were 11 cargo vessels and 8 tankers of Soviet flag, as well as 8 European Satellite freighters (mainly of Polish registry) bound for Europe by this route. 20/ Soviet tankers generally return to the Black Sea in ballast or carry soybeans from Dairen to Western Europe.

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This time, however, 6 of the rerouted Soviet tankers carried Persian Gulf petroleum to Western Europe; at least 3 of these are known to have been under charter to the UK. 21/ With one exception during mid-1956, the lift of Persian Gulf petroleum to Western Europe in Soviet tankers was unprecedented. Such an arrangement is advantageous to both parties in that it permits Western Europe to augment its dwindling petroleum supplies and the USSR to convert a costly empty haul into a profitable journey.

D   
from the Baltic Sea are expected to move through the Canal for the Far East and will require water and provisions at Honolulu. 23/ With the exception of two transits in May 1955 and February 1956, no Soviet vessels have gone through the Panama Canal since 1949. The closing of the Suez Canal, however, apparently has made the route more attractive because it is shorter than the route around Africa for vessels plying between Europe and Asia. On a trip between the Black Sea and Vladivostok, for example, the use of the Panama Canal offers a saving of more than 1,800 miles.

At present, Soviet vessels are not prohibited from moving through the Panama Canal, although they are subject to security inspection by US Army personnel. To call at Honolulu or at US west coast ports, however, requires elaborate and time-consuming legal procedures. According to the US port security program, the entry of Soviet vessels requires permission from the Secretary of the Treasury after consultation with the Secretaries of State and Defense and the Director of Central Intelligence. If bunkers are requested, moreover, a license must be granted by the Department of Commerce. The 11 Soviet vessels intending to move through the Panama Canal are expected to bunker at Trinidad to avoid this regulation.

## 2. Tightening of the Charter Market.

The extension of voyage time for vessels carrying a sizable segment of world trade has greatly increased the need for both tankers and cargo vessels, thus aggravating a charter market that has been tightening since the Suez Canal was nationalized on 26 July 1956. The impact of the change has been felt particularly in the petroleum trades as well as the wheat and coal trades, which normally maintain high levels during the fall months. Even in October, before hostilities in Egypt, available ship tonnage was just about equal to trade requirements. 25/ With the closing of the Suez Canal, trade tonnage requirements began to exceed vessels, and rates began to soar. The impact on shipping in general is illustrated by the increase in the charter rate for coal from Hampton Roads to the Continent from US \$13.09 per ton on 27 October 1956 to US \$14.98 on 3 December, a rate greater than that which prevailed during the Korean War. 26/

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The Sino-Soviet Bloc, as a result of its extensive dependence on non-Bloc shipping services, has been adversely affected by the tightening charter market. In October, Sovfracht, the Soviet chartering agency, informed its offices abroad that the ship-chartering situation was serious and that ships must be obtained by any means available. 27/ Hostilities in Egypt made it even more difficult to find vessels, especially for the Far East. [ ]

### 3. Congestion at Bunker Ports.

Since the blocking of the Suez Canal the large-scale diversion of Sino-Soviet Bloc and Free World vessels around Africa has created congestion at bunker ports in South and West Africa which are not equipped to handle the increased requirements. In a 36-hour period in mid-November 1956, for example, 50 ships called at Durban in South Africa for bunkers and water after being diverted from Suez. 29/ In addition to the delays occasioned by overcrowding limited facilities, shortages of bunker fuel make it difficult to schedule shipping services. As a result, Bloc vessels on the Chinese and South American routes are having difficulty in arranging for bunker stops. [ ] Czechofracht, the Czechoslovak ship-chartering agent, advised that bunkering ships south of Dakar was almost impossible. 30/ Consequently, Bloc vessels returning from Communist China now take maximum bunkers and supplies in Southeast Asian ports and attempt to proceed as far as Dakar or Freetown before bunkering again, thereby avoiding Capetown and Durban, where congestion is heaviest. 31/ [ ]

[ ] 32/ Some vessels may have to sacrifice part of their normal cargo space, moreover, to stow additional fuel. 33/ In any case, delays in fueling and attempts to avoid congestion at bunker ports are making the rerouting of Bloc vessels around the Cape of Good Hope a more expensive and time-consuming diversion than the increased distance alone would seem to indicate.

### B. Trade Commitments.

#### 1. Soviet Bloc Supply of the Soviet Far East and Communist China.

The disruption of Sino-Soviet Bloc shipping schedules, a tightening charter market, and bunkering difficulties have already affected seaborne trade between the European Soviet Bloc and the Communist Far East. Normally, there is little dry cargo trade moving between the European Bloc and the Soviet Far East, but tanker shipments of Black Sea petroleum to the area are rather numerous. In 1955 a total of 43 tankers carrying 428,000 tons of petroleum arrived at Soviet Far East ports, mainly Vladivostok. Tanker arrivals increased during 1956, amounting to 52 before the closing of the Suez Canal. The movements of Soviet tankers between the Black Sea and the Soviet Far East in 1954-56 are shown in Table 4.\*

\* Table 4 follows on p. 14.

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Table 4

Movements of Soviet Tankers Between the Black Sea and the Soviet Far East a/  
1954-56

Month	1954		1955		1956	
	Departures from Black Sea	Arrivals in Far East	Departures from Black Sea	Arrivals in Far East	Departures from Black Sea	Arrivals in Far East
January	0	0	4	2	1	2
February	0	0	1	4	7	2
March	0	0	4	3	5	6
April	0	0	2	1	6	6
May	0	0	5	4	12	6
June	1	0	4	3	6	8
July	3	0	6	4	3	6
August	1	1	3	4	6	6
September	1	3	4	5	6	5
October	2	2	4	4	1	5
November	1	1	2	5	0	4
December	3	1	4	4	0	1
Total	12	8	43	43	53	57

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The blocking of the Suez waterway had a serious effect on seaborne petroleum supplies to the Far East. During the first 10 months of 1956, tanker departures from the Black Sea to Vladivostok averaged 5.3 per month, and tanker arrivals in the Far East averaged about the same. Since the Canal was closed, however, there have been no tanker departures for the Far East. Consequently, although tanker arrivals in the Far East were about average in November because 4 tankers moved through the Canal before hostilities began, there was only 1 arrival in December and, from present indications, none in January. 35/

The effect of the dislocation of world shipping on the number of arrivals in Communist China cannot be measured with similar precision. Normally, during November and December more ships call at Chinese Communist ports than in any other period of the year. (For merchant ship arrivals in Communist China in 1951-55, 36/ see Figure 2. \*) In 1955 there were 118 arrivals in November and 129 in December, of which vessels of Sino-Soviet Bloc registry comprised 23 and 30, respectively. Arrivals from January through October totaled 938, of which Bloc vessels accounted for 145, an average of about 14 ships per month. Not all of these Bloc arrivals in China were from areas affected by the closing of the Suez Canal. Most were from the Soviet Far East, and only 33, or an average of 2.7 per month, originated in European ports. Departures from Chinese ports followed a similar pattern. 37/

Although the number of non - Sino-Soviet Bloc arrivals in Communist China during November 1956 and expected in the subsequent few months is not known, there are several indications that the involvement of Western registry in Chinese foreign trade is decreasing. A general diversion of non-Bloc vessels to other routes is suggested in a report  in mid-November which stated that there were few charter vessels offering their services from Europe to the Far East because most shipping lines were expecting an increase in trans-Atlantic runs. 38/ The reluctance of ship owners to continue transporting Chinese Communist trade with Europe is understandable. Runs to the Far East now engage their ships for several months, at rates fixed before the voyages. Under these circumstances it is difficult to take advantage of steadily increasing rates to the same extent possible on short trips.

The effect of the closing of the Suez Canal on Sino-Soviet Bloc arrivals in Communist China is not yet clear, although there apparently will be a downward trend at least initially. As of 5 December, for example, only four Soviet freighters were scheduled from European ports to China by way of the Cape route. 39/ Moreover, Polish merchant ships, which are usually rather heavily committed to the China trade, were also reported to be less active. During the 7-day period ending 19 November, only 32 Polish-flag vessels were outside Communist waters, compared with 45 in a similar period last year. Movements to North European ports and to South America remained about normal, but a decrease was noted in the number of Polish-flag ships

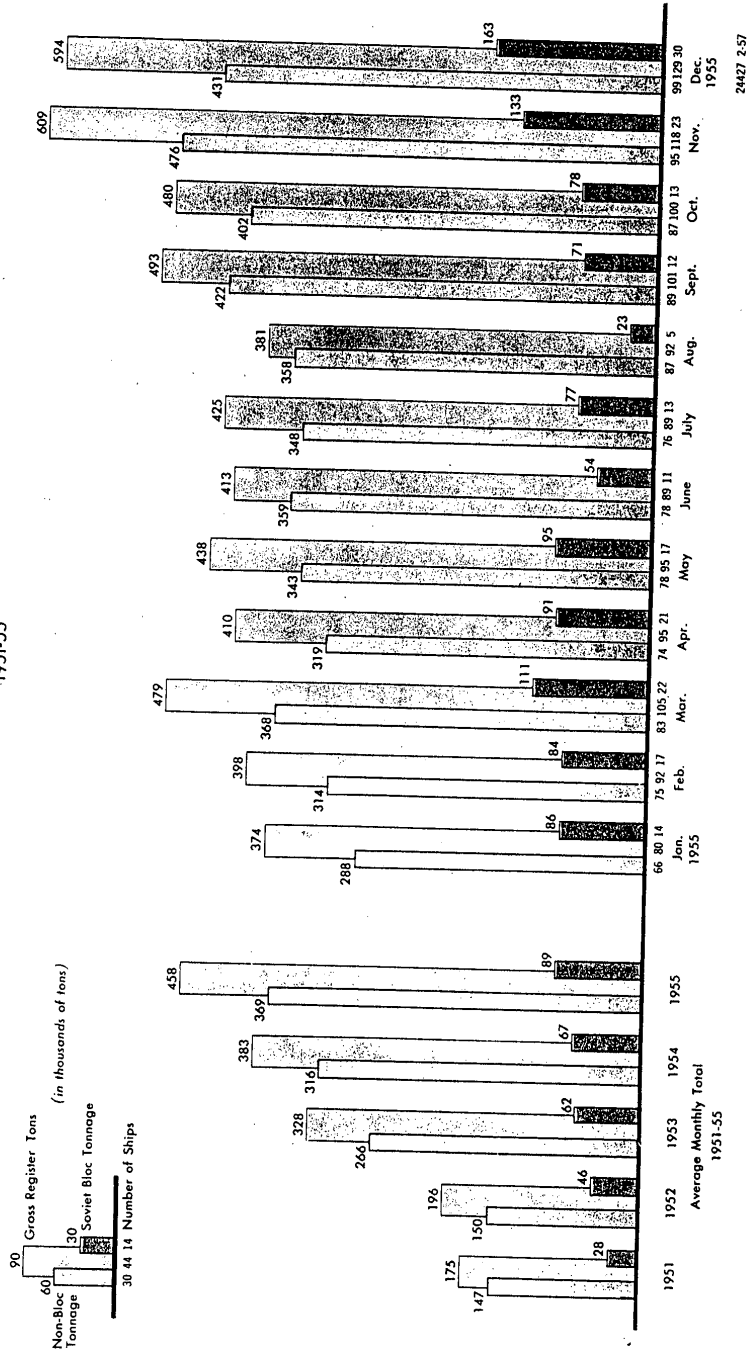
\* Following p. 16.

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# MERCHANT SHIPPING TO COMMUNIST CHINA 1951-55

Figure 2



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employed in the China trade. 40/ The dislocation, however, may only be temporary. Based on known departures to date, there should be about 7 freighter arrivals in Chinese ports in January 1957, all of Polish registry, which is to be compared with 3 arrivals in January 1956 -- 2 Polish-flag and 1 Czechoslovak. 41/

The prospect of a reduction in seaborne trade with the Communist Far East necessitates the increasing use of the Trans-Siberian Railroad, especially for the trade of Communist China. Over the short run, therefore, transport costs will rise markedly. For every ton of merchandise diverted to overland movement, the Sino-Soviet Bloc must absorb on the average a sevenfold increase in transport costs. The inability of the Soviet Far East to support itself has led the government of the USSR to establish state reserves bases in the area, in a concentration exceeded only by that in the vicinity of Moscow. Of the approximately 37 reserves bases in the region in 1955, 12 were known to store petroleum reserves. 42/ With the alternative of rail transport available, however, it is unlikely that the petroleum requirements of the Soviet Far East will be met from these stocks. The reserves are for wartime emergency, and their depletion for an extended period probably would not be permitted by the USSR because of the adverse effect on military capability.

The effect of a decline in the seaborne trade of Communist China could be more serious than the curtailment of the seaborne trade of the Soviet Far East. China receives substantial seaborne deliveries of critical commodities -- metals, machinery, transport and other equipment, and chemical fertilizers -- which are required for economic and military programs. 43/ Any appreciable curtailment of fertilizer shipments may adversely affect agricultural production, although China may be able to increase its fertilizer imports from Japan. The inability to phase properly the delivery of essential industrial equipment is even more serious, however, and could retard economic expansion.

The dependence of the Soviet and European Satellite economies on imports from Communist China, which consist principally of products of the agricultural and extractive industries, 44/ is not nearly as great as the Chinese dependence on imports, because of the availability of alternative sources.\* The lack of vessels to transport these commodities, moreover, may congest storage facilities in China. This would apply mainly to agricultural commodities harvested in Central and South China, where present transport problems may make overland exports by way of the Trans-Siberian Railroad difficult. 45/

that there was no warehouse space available in Shanghai may reflect a growing storage problem. 45/ If sufficiently extensive, the inability to market food crops abroad may seriously affect the Chinese balance of payments.

\* A major exception, however, may be Poland, where steel production depends in part on Chinese iron ore. A substantial reduction in this traffic, accompanying the delays already experienced in the receipt of Indian iron ore, would jeopardize planned economic expansion in Poland.

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The decision by Communist China to divert trade from ocean transport to overland movement has been made, for critical items at least, although less urgent deliveries apparently continue to move by sea. [ ]

[ ] Peiping and its shipping agents in Eastern Europe began to arrange for the rail shipment of industrial commodities needed for the Chinese construction program -- materials which usually are shipped by sea from Gdynia. [ ]

[ ]

The estimated volume and value of the overland trade of Communist China with the USSR and the European Satellites during the periods January through June 1956 and January through June 1957, under normal conditions, are shown in Table 5.\* It is apparent that Chinese overland imports and exports already cast a substantial burden on the Soviet railroads, especially the Trans-Siberian line. The early closing of the Northern Sea Route this year, moreover, probably has required increased shipments on this vital rail artery. Nevertheless, Soviet rail facilities probably can cope with the estimated limited volume of dry-cargo trade which is being diverted.

The increase in petroleum shipments by rail to the Far East could create a transport problem. The growth of the Soviet tank-car park has not kept pace with increasing petroleum production. The burden of long overland petroleum movements on Soviet tank-car capability is reflected in the addition of 34 new 10,000-ton tankers to the petroleum fleet since 1951 and in their increasing use in meeting requirements of the Communist Far East. 47/ The complete diversion to rail of the estimated 450,000 tons 48/ of petroleum that would have moved by sea in the first half of 1957 may therefore seriously tax the Soviet tank-car inventory. [ ]

[ ] may indicate an inability to move sufficient petroleum overland to meet the requirements of the Soviet Far East and may also suggest that merchant shipping in the area may be adversely affected. 49/ Substantially increased diversions of dry and liquid cargoes, continued over an extended period, moreover, could retard the delivery of commodities required elsewhere in the USSR, in a magnitude sufficient to affect adversely Soviet economic plans. Appreciable increases in overland trade movement would also aggravate the sporadic transport congestion which has become increasingly prevalent in Communist China during recent months. 50/

In addition to the problem of diverting to rail commodities formerly carried by merchant shipping services, Communist China evidently is having difficulty in obtaining necessary supplies. [ ]

[ ]

[ ]

\* Table 5 follows on p. 18.

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Table 5

Estimated Volume and Value of the Overland Foreign Trade of Communist China  
with the USSR and the European Satellites a/  
January-June 1956 and January-June 1957

Trade	January-June 1956				January-June 1957			
	Volume (Thousand Metric Tons)		Value (Million US \$)		Volume (Thousand Metric Tons)		Value (Million US \$)	
	Liquid	Dry	Total	Total	Liquid	Dry	Total	Total
<b>Exports to</b>								
European Satellites	0	144	144	144	0	145	145	145
USSR	0	1,530	1,530	531	0	1,800	1,800	625
Total	0	1,674	1,674	675	0	1,945	1,945	770
<b>Imports from</b>								
European Satellites	0	95	95	140	0	95	95	140
USSR	440	460	900	530	450	600	1,050	630
Total	440	555	995	670	450	695	1,145	770

a. 53/

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Chinese Communist exports may be similarly affected.  because of the impossibility of obtaining a ship, a contract for Chinese kaolin was being withheld. 54/ The recent urging by Chinese economists of a "drastic revision" in the import-export policy of China may also have some relation to events in Egypt, 55/ although before the closing of the Suez Canal, China was having difficulty with its export program.  there were not enough  because of floods, droughts, and windstorms. 56/ Earlier it was reported that China could not supply Egypt the amount of coal and steel it had ordered. 57/

2. Sino-Soviet Bloc Trade Offensive in the Near East and in South and Southeast Asia.

One effect of the closing of the Suez Canal on Sino-Soviet Bloc - Free World trade has been the disruption of the normal flow of petroleum from the Black Sea to the port of Suez. Previously, a substantial part of the imported crude oil required by the two Egyptian refineries at Suez was received from the Bloc. In the first 10 months of 1956 this traffic amounted to about 325,000 tons, compared with an annual import requirement of about 700,000 tons. More than 500,000 tons of refined petroleum products from the Black Sea also moved through the Canal to the port of Suez for internal distribution during the period. 58/

The USSR acted promptly after the termination of hostilities to increase its deliveries of refined petroleum to Egypt through Alexandria. By the end of November it was able to advise Cairo that 6 Soviet tankers with different types of fuel oil were scheduled to sail for Egypt in November 1956 and 12 more during December. Additional fuel supplies were offered if necessary. 59/ By 11 December, 9 Soviet tankers carrying an estimated 100,000 tons of refined petroleum had arrived at Alexandria. 60/ In spite of the increase in Black Sea petroleum shipments, however, it is doubtful that the USSR will supply more than about 25 percent of total Egyptian requirements during the period the Canal remains closed.

The lack of crude oil in Egypt has been most difficult to overcome. The cessation of Soviet deliveries and the inaccessibility of other former sources have kept the Suez refineries closed since the initiation of hostilities. The production of these refineries normally accounts for most of the petroleum needs of Egypt. 61/ As a result, petroleum, on which Egyptian industry is completely dependent for fuel as well as lubrication, is critically short. Reportedly there were only enough stocks on hand to last until January 1957. 62/

The blocking of the Suez Canal also has significantly increased the cost of transporting Sino-Soviet Bloc - Asian trade. Shipments from the Black Sea to Southeast Asia now require more than 50 days by way of the Cape of Good Hope compared with about 20 days by way of the Suez Canal. 63/

It is too early to say with certainty whether Sino-Soviet Bloc economic relations with Near East and free Asian countries will suffer substantially as a result of the closing of the Canal. The difficulty in determining with

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any precision the effect of the worldwide disorganization of shipping on Bloc-Asian trade arises from the scarcity of information on delivery schedules. Nevertheless, some evidence of a curtailment of seaborne commodity movements is apparent. [ ]

[ ] temporarily suspended rubber purchases in Indonesia. 64/ [ ]

[ ] indicated that even the shipment of 20 tons of unidentified cargo was impossible because of events in Egypt. 65/ These [ ] coupled with the fact that since the Suez Canal has closed few Sino-Soviet Bloc-flag vessels have departed for free Asian countries, suggest that the Bloc trade offensive in underdeveloped areas may be adversely affected. India, the leader among free Asian nations, may be an exception. Approximately 69 percent of its exports and 61 percent of its imports normally pass through the Suez Canal. Already, as the result of the scarcity of world shipping, shortages of many commodities have occurred on Indian markets. In the long run, moreover, its five-year plan for economic development may be severely affected. 66/ One of the Soviet-flag vessels now en route to Calcutta is carrying structural steel, cranes, and equipment required for the Indian industrial program. Other Soviet and Polish vessels bound for India probably are loaded with similar commodities. Poland may be anxious to obtain return cargoes of iron ore because reported delays in its delivery threaten the closing of some steel mills. 67/ It is also likely that the Sino-Soviet Bloc may attempt to fulfill its trade commitments with India in order to demonstrate its adherence to agreements in spite of extenuating circumstances. Elsewhere in Asia the Bloc can place responsibility for any failure to meet trade commitments on Western intervention in Egypt.

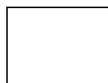
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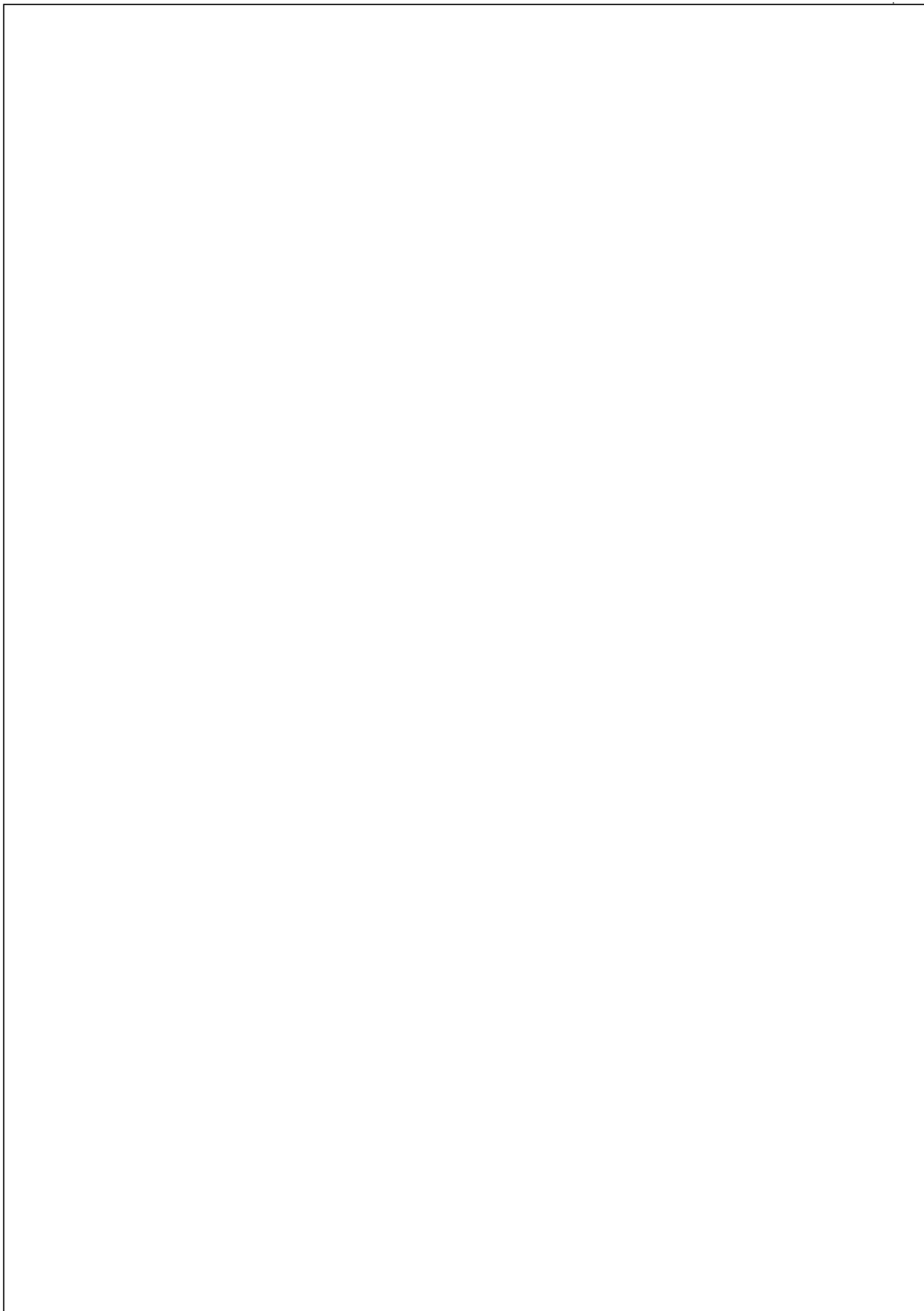


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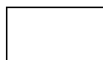
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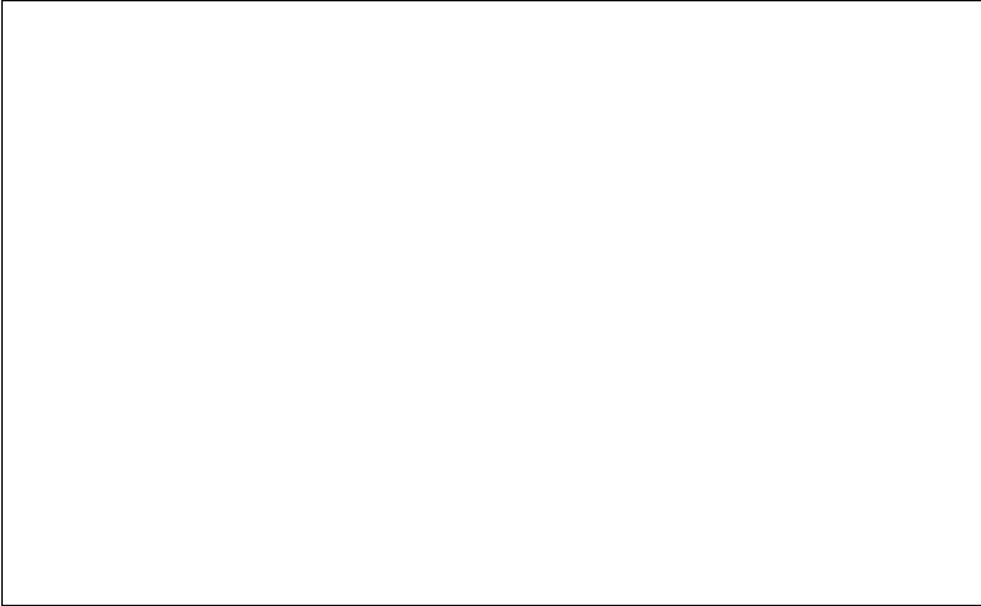
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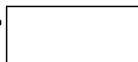


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APPENDIX C

SOURCE REFERENCES

Evaluations, following the classification entry and designated "Eval.," have the following significance:

<u>Source of Information</u>	<u>Information</u>
Doc. - Documentary	1 - Confirmed by other sources
A - Completely reliable	2 - Probably true
B - Usually reliable	3 - Possibly true
C - Fairly reliable	4 - Doubtful
D - Not usually reliable	5 - Probably false
E - Not reliable	6 - Cannot be judged
F - Cannot be judged	

"Documentary" refers to original documents of foreign governments and organizations; copies or translations of such documents by a staff officer; or information extracted from such documents by a staff officer, all of which may carry the field evaluation "Documentary."

Evaluations not otherwise designated are those appearing on the cited document; those designated "RR" are by the author of this report. No "RR" evaluation is given when the author agrees with the evaluation on the cited document.

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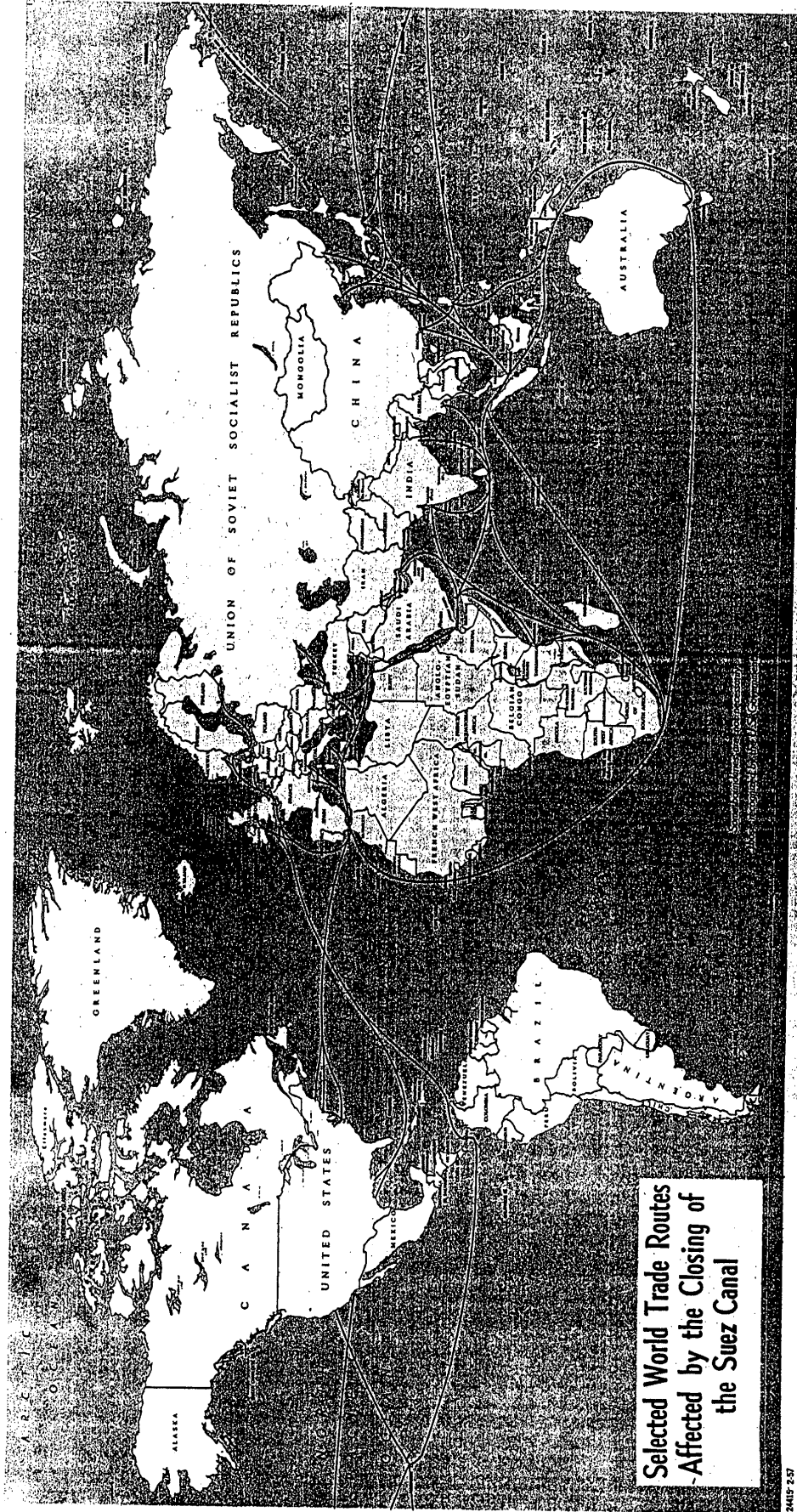
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